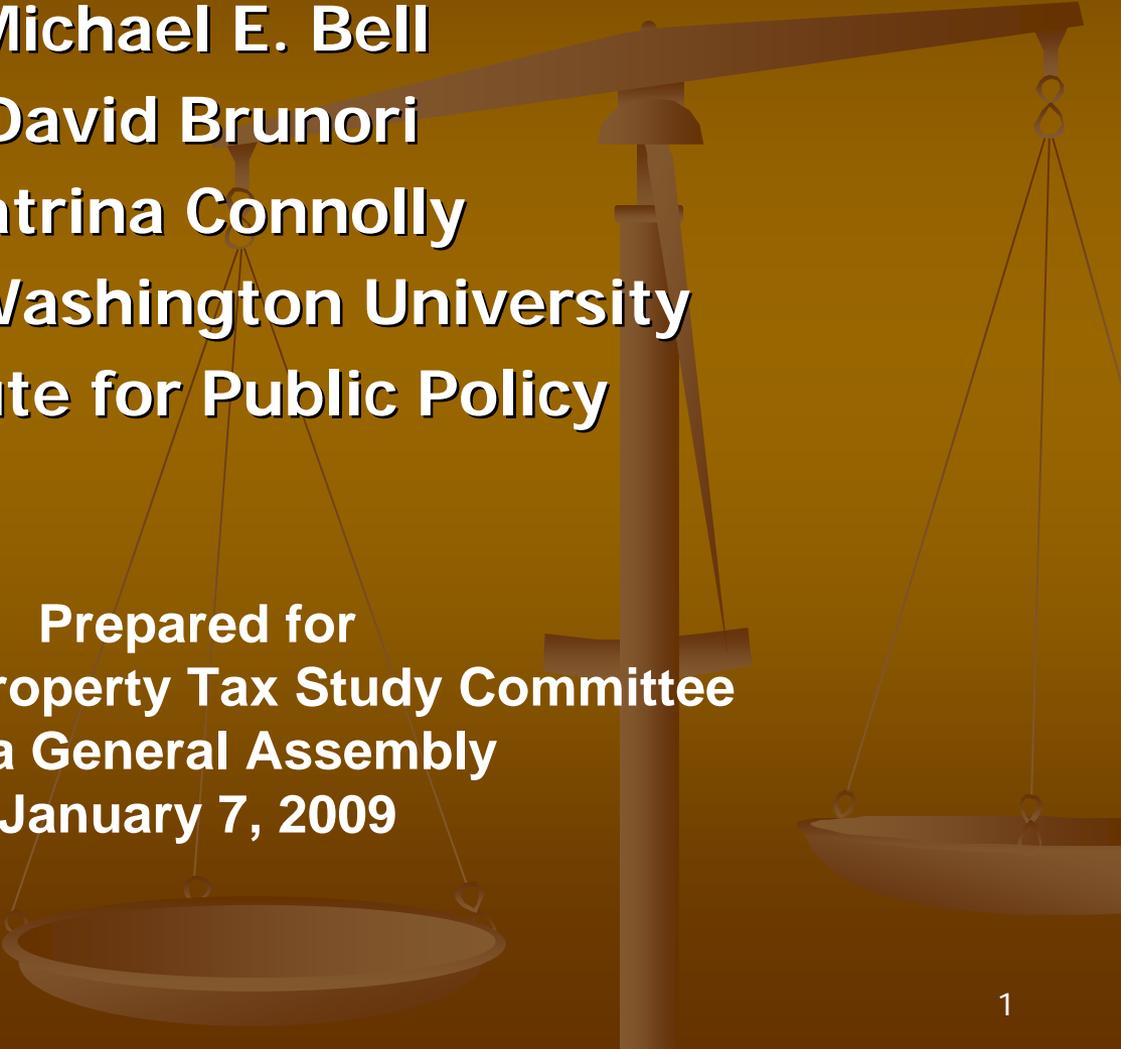


# **Iowa Property Tax Study Final Report**



**Michael E. Bell**

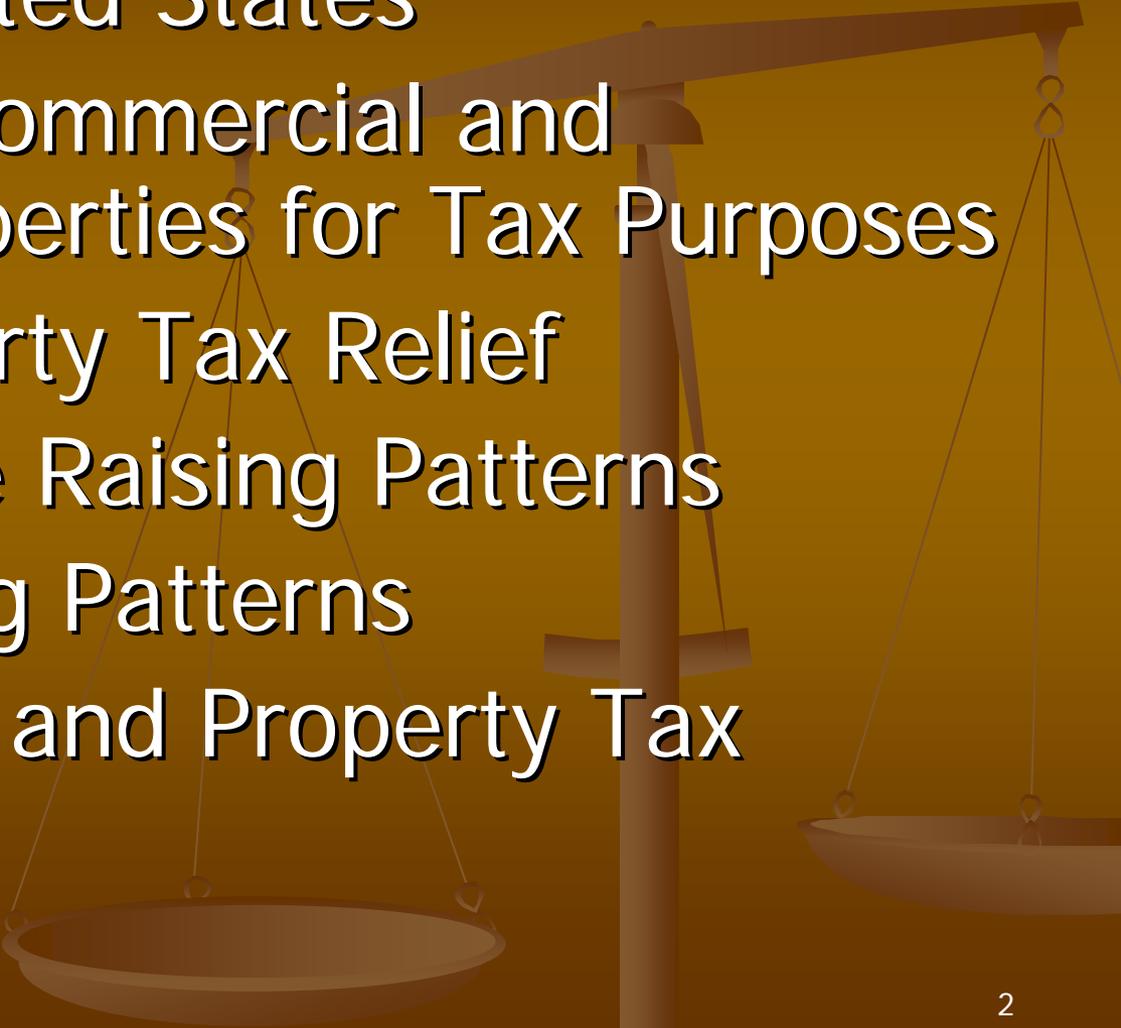
**David Brunori**

**Katrina Connolly**

**George Washington University  
Institute for Public Policy**

**Prepared for  
Legislative Property Tax Study Committee  
Iowa General Assembly  
January 7, 2009**

# Presentation Outline

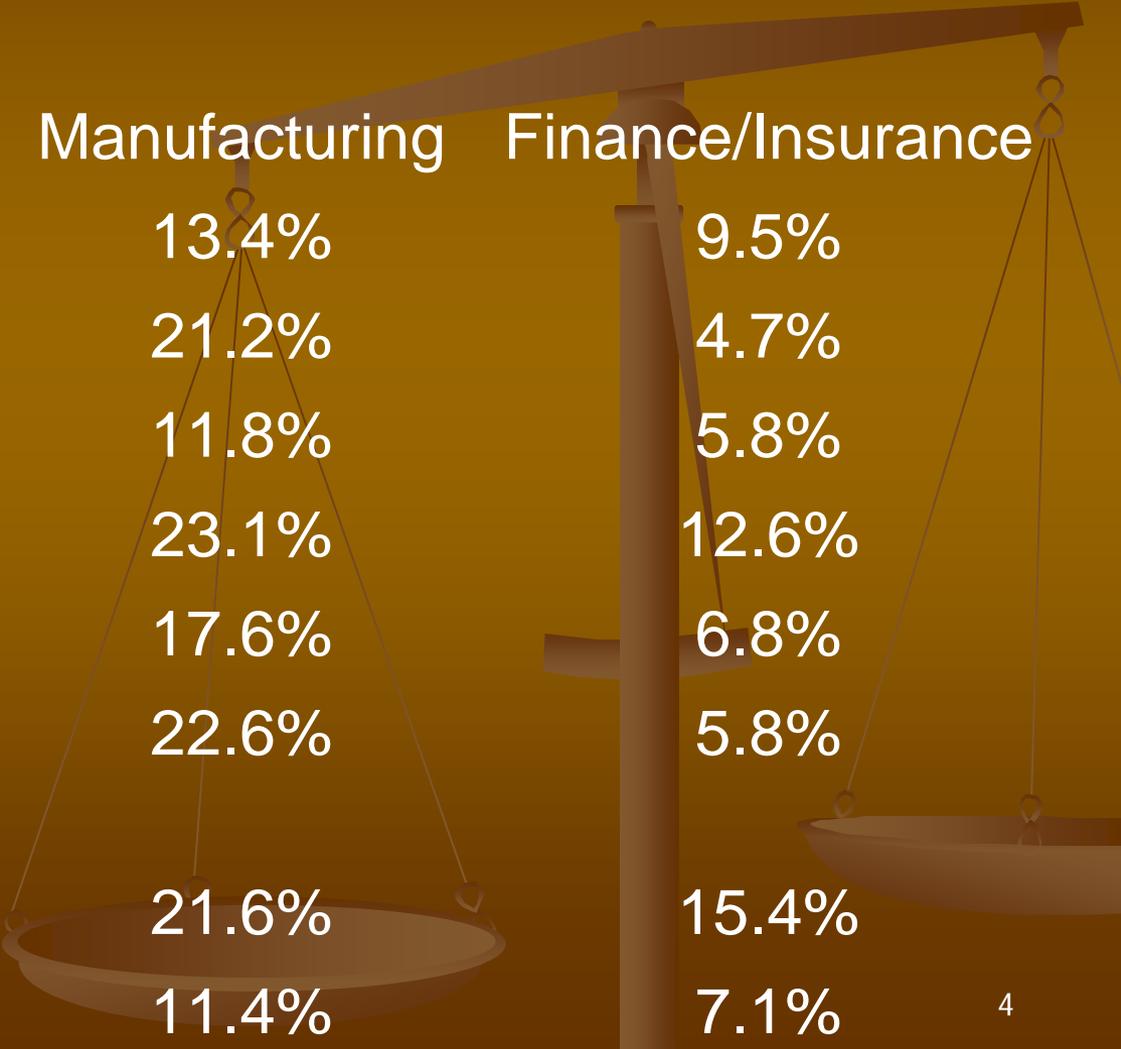
- Similarly Situated States
  - Valuation of Commercial and Industrial Properties for Tax Purposes
  - Indirect Property Tax Relief
  - Local Revenue Raising Patterns
  - Local Spending Patterns
  - Smart Growth and Property Tax Incentives
- 

# Similarly Situated States

- Six neighbors of Iowa – Illinois, Minnesota, Missouri, Nebraska, South Dakota, Wisconsin
- States dependent on farming – Arkansas, Idaho, Kansas, Kentucky, North Dakota
- States dependent on manufacturing and finance – North Carolina

# Similarly Situated States

GDP by state and by sector 2006  
percent of private industry



	Farming	Manufacturing	Finance/Insurance
<b>United States</b>	0.8%	13.4%	9.5%
<b>Arkansas</b>	2.9%	21.2%	4.7%
<b>Idaho</b>	3.9%	11.8%	5.8%
<b>Iowa</b>	4.6%	23.1%	12.6%
<b>Kansas</b>	2.6%	17.6%	6.8%
<b>Kentucky</b>	1.6%	22.6%	5.8%
<b>North Carolina</b>	1.3%	21.6%	15.4%
<b>North Dakota</b>	6.8%	11.4%	7.1%

# Chapter 1

## Section A.4

# Valuing Commercial and Industrial Properties for Tax Purposes

# Valuing Commercial and Industrial Properties

- Initial reconnaissance found no state mandates to use specific valuation methods
- Commercial property accounts for 30 percent of property tax base in Iowa
- Commercial property accounts for less than one-fourth of property tax base in similarly situated states
- All 6 of Iowa's neighboring states require highest and best use stand for all property except agricultural land

# Commercial and Industrial Property: Effective Tax Rates

- GWIPP surveyed 50 state web sites to collect information on effective tax rates
- 13 states included information on effective tax rates on their web site
- 4 states are similarly situated to Iowa
- All 4 states report effective property tax rates by jurisdiction
- Only South Dakota reports effective property tax rates by land use type

# Effective Property Tax Rates in North Dakota, 2005

- Commercial property – 2.42 percent
- Residential property – 1.87 percent
- Agricultural property – 1.23 percent

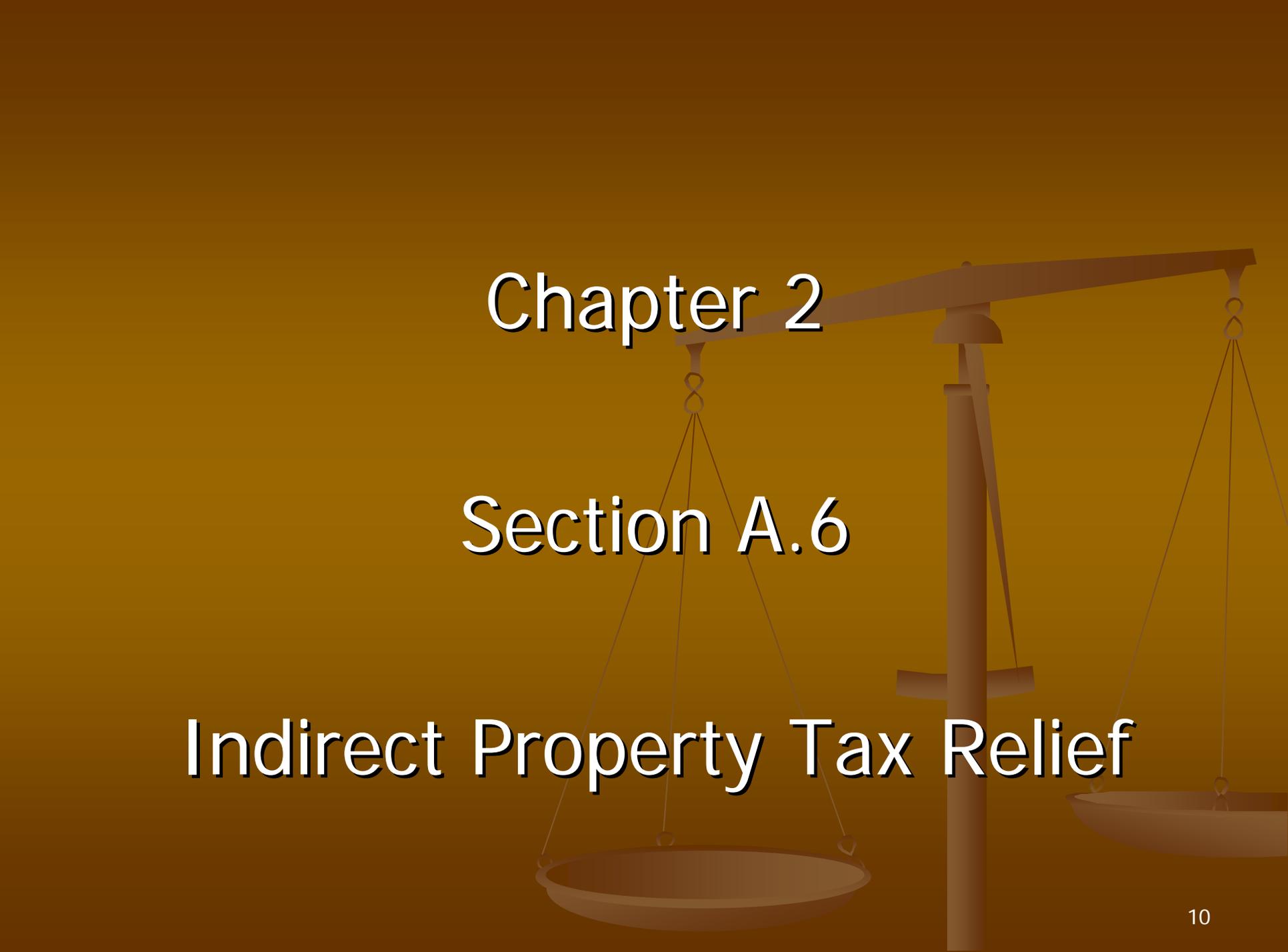
# Minnesota Taxpayer Association

## Effective Property Tax Rates

### Commercial Property, 2005

- Report effective property tax rates for commercial property in 50 cities with highest rates
- For similarly situated states the range was from high of 2.83 percent in Kansas City, Missouri to a low of 1.14 percent in Louisville, Kentucky
- 5 similarly situated states did not have a city on the list

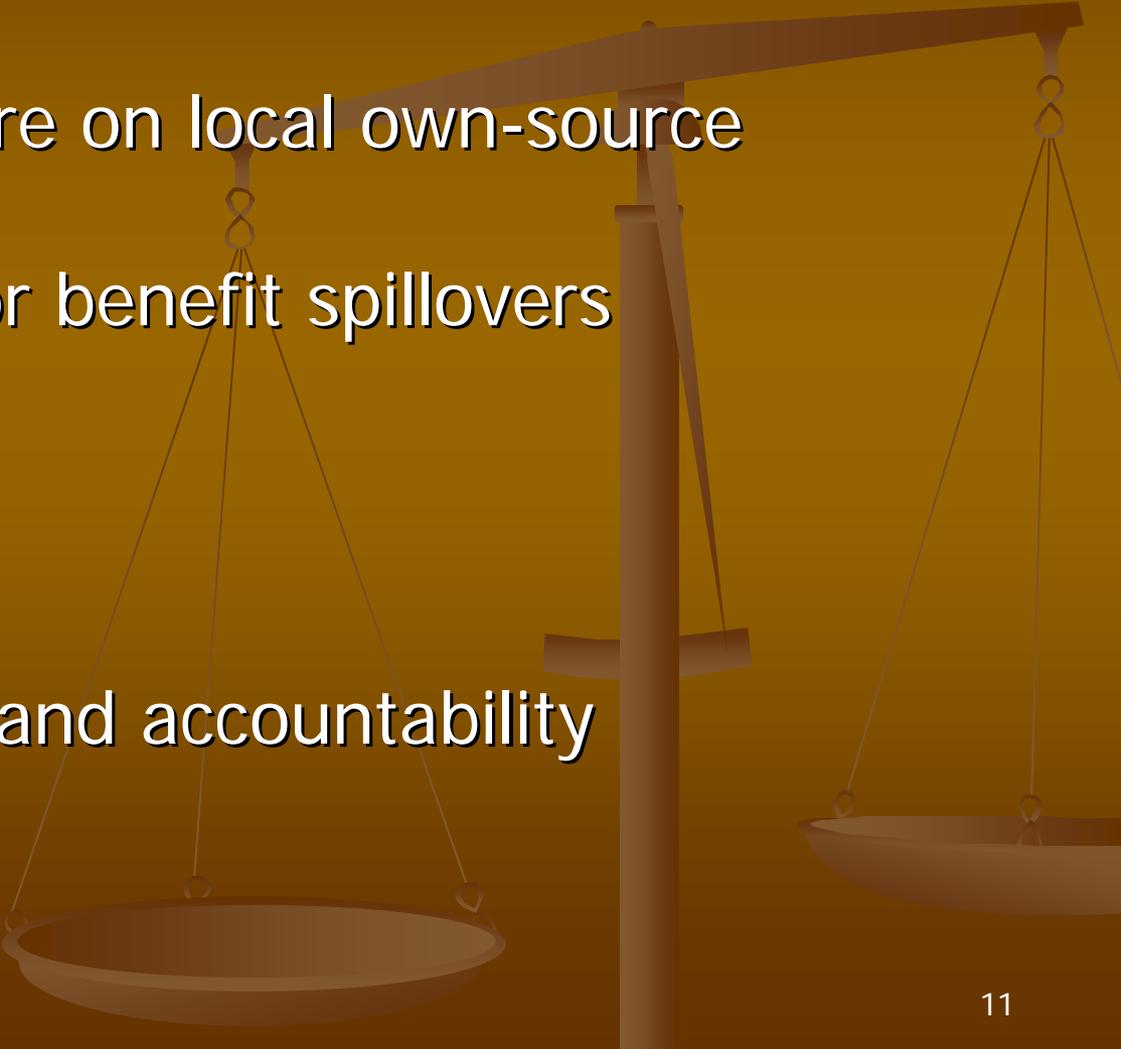
# Chapter 2



## Section A.6

# Indirect Property Tax Relief

# Intergovernmental Aid



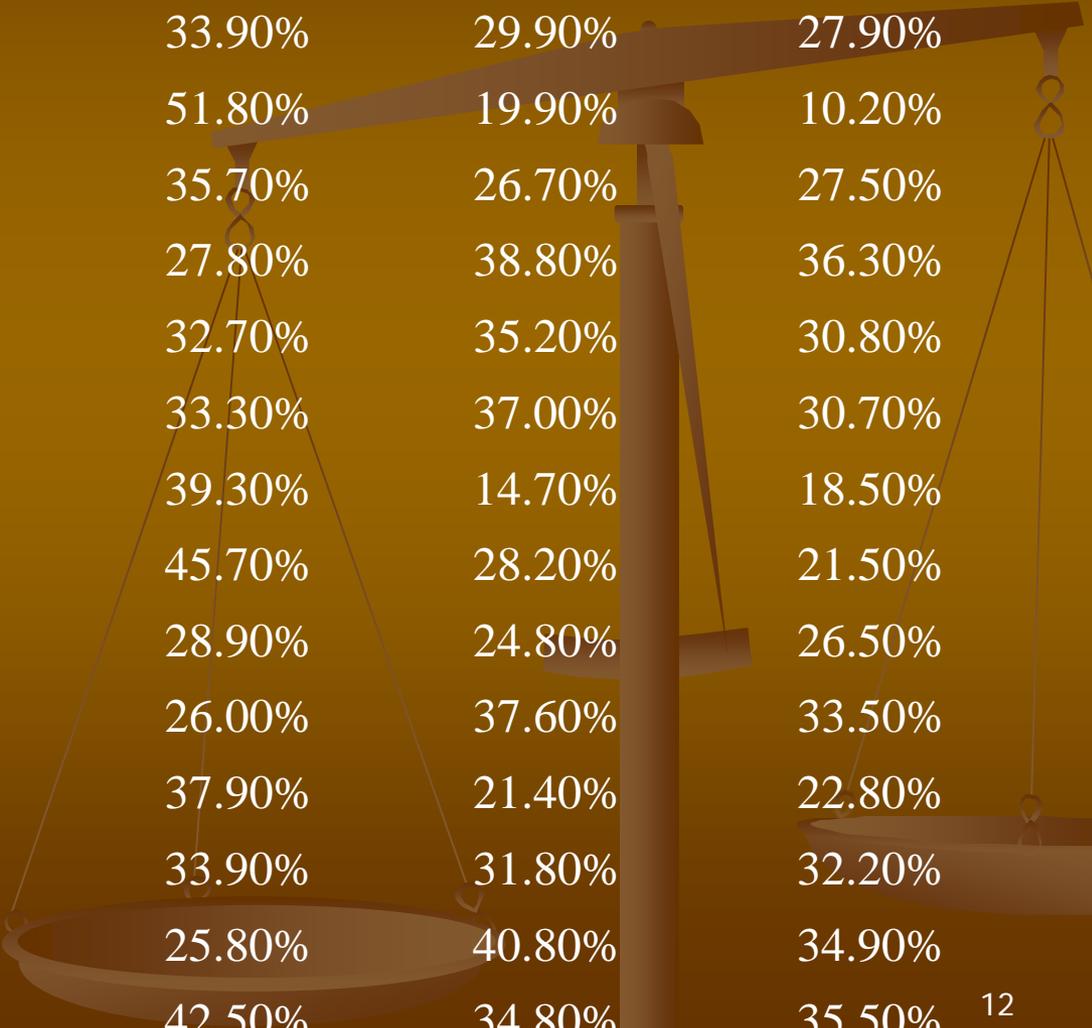
## ■ Strengths

- Reduces pressure on local own-source revenues
- Compensates for benefit spillovers

## ■ Limitations

- Unreliability
- Less autonomy and accountability
- Efficiency

# Indirect Relief: Intergovernmental Aid



	dep on state aid		dep on prop taxes	
	1992	2006	1992	2006
<b>United States</b>	34.20%	33.90%	29.90%	27.90%
<b>Arkansas</b>	43.20%	51.80%	19.90%	10.20%
<b>Idaho</b>	42.00%	35.70%	26.70%	27.50%
<b>Illinois*</b>	27.80%	27.80%	38.80%	36.30%
<b>Iowa</b>	33.80%	32.70%	35.20%	30.80%
<b>Kansas</b>	27.00%	33.30%	37.00%	30.70%
<b>Kentucky</b>	42.70%	39.30%	14.70%	18.50%
<b>Minnesota*</b>	38.30%	45.70%	28.20%	21.50%
<b>Missouri*</b>	30.90%	28.90%	24.80%	26.50%
<b>Nebraska*</b>	27.30%	26.00%	37.60%	33.50%
<b>North Carolina</b>	41.20%	37.90%	21.40%	22.80%
<b>North Dakota</b>	35.50%	33.90%	31.80%	32.20%
<b>South Dakota*</b>	22.70%	25.80%	40.80%	34.90%
<b>Wisconsin*</b>	43.10%	42.50%	34.80%	35.50%

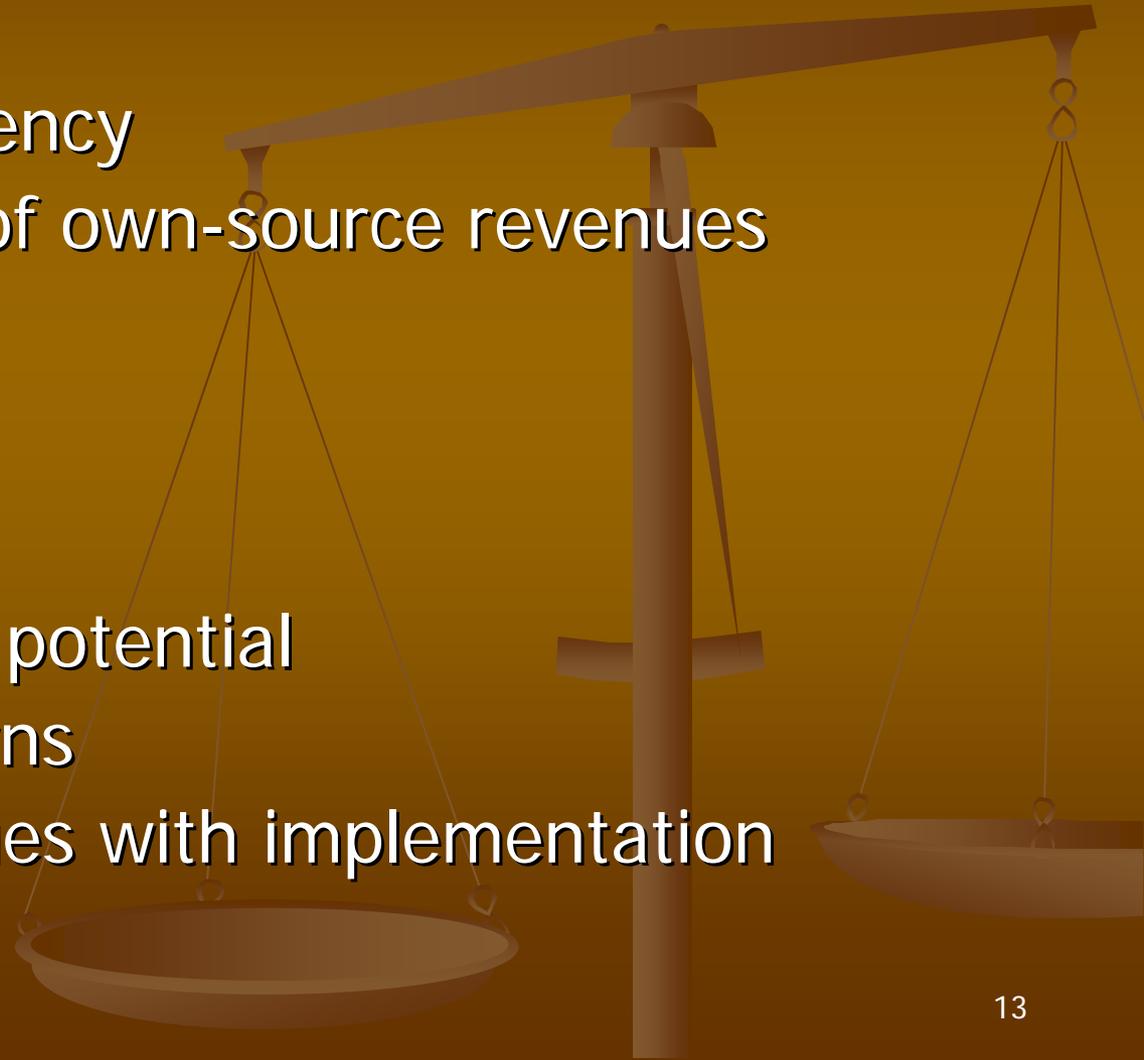
# User Fees and Charges

## ■ Strengths

- Economic efficiency
- Diversification of own-source revenues
- Local control

## ■ Limitations

- Limited growth potential
- Fairness concerns
- Conceptual issues with implementation



# User Fees and Charges

User Charges as a  
Share of Local  
General Revenues

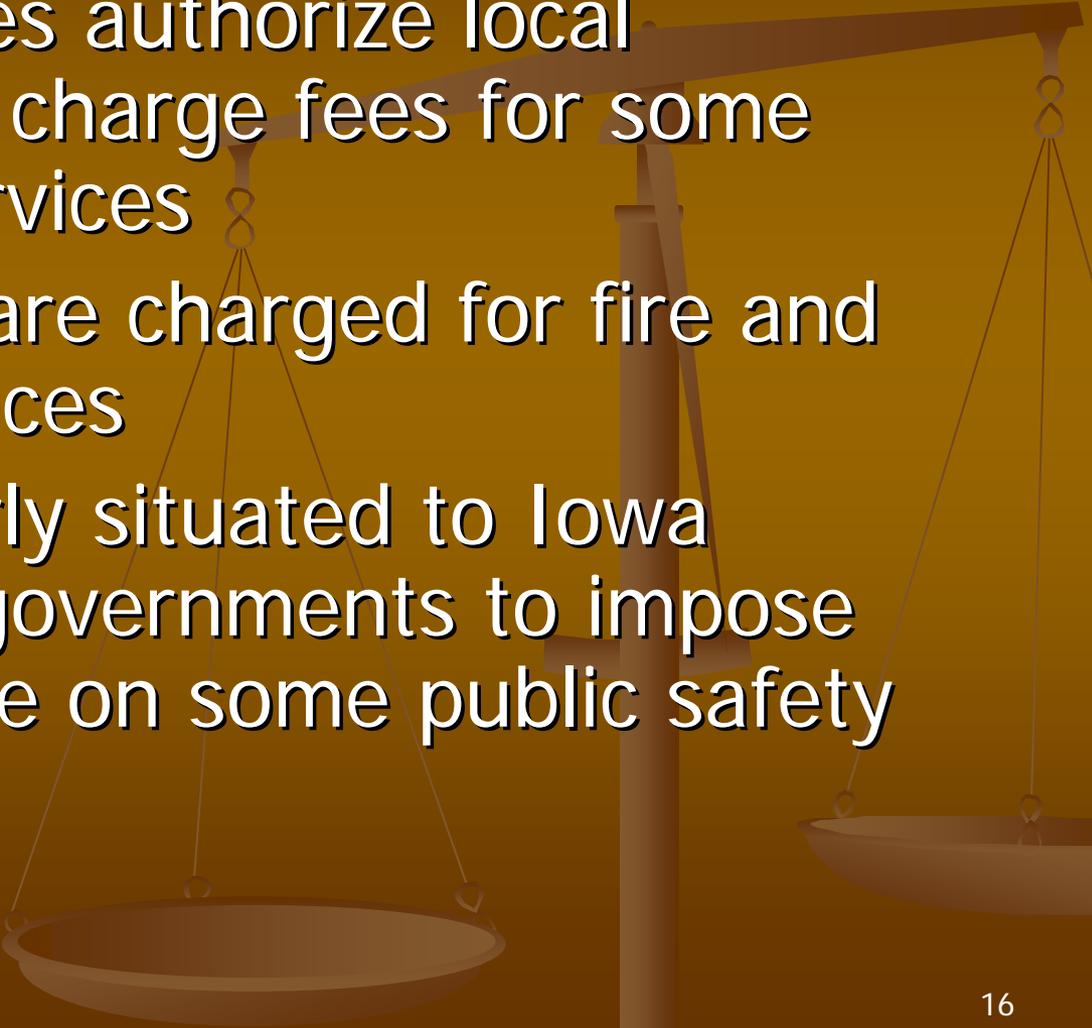
Property Taxes as a Share of Local General  
Revenues

	1992	2006	1992	2006
<b>United States</b>	14.7	15.9	29.9%	27.9%
<b>Arkansas</b>	16.7	13.4	19.9	10.2
<b>Idaho</b>	21.2	26.6	26.7	27.5
<b>Illinois*</b>	11.4	15.4	38.8	36.3
<b>Iowa</b>	18.7	20.1	35.2	30.8
<b>Kansas</b>	14.2	16	37	30.7
<b>Kentucky</b>	13.8	13.1	14.7	18.5
<b>Minnesota*</b>	16.1	18.2	28.2	21.5
<b>Missouri*</b>	16.5	17.2	24.8	26.5
<b>Nebraska*</b>	17.5	17	37.6	33.5
<b>North Carolina</b>	18.9	22.3	21.4	22.8
<b>North Dakota</b>	10.5	12	31.8	32.2
<b>South Dakota*</b>	6.5	7.1	40.8	34.9
<b>Wisconsin*</b>	12.7	12.4	34.8	35.5

# User Fees and Tax Exempt Organizations

- A reconnaissance of 50 state web sites found no state statutes that explicitly exempt charities and non-profit organizations from user fees and charges
- Some charities and non-profit organizations make payments in lieu of taxes (PILOTs) to local governments, but these are typically negotiated on a case by case basis by individual local governments

# Charges for Public Safety

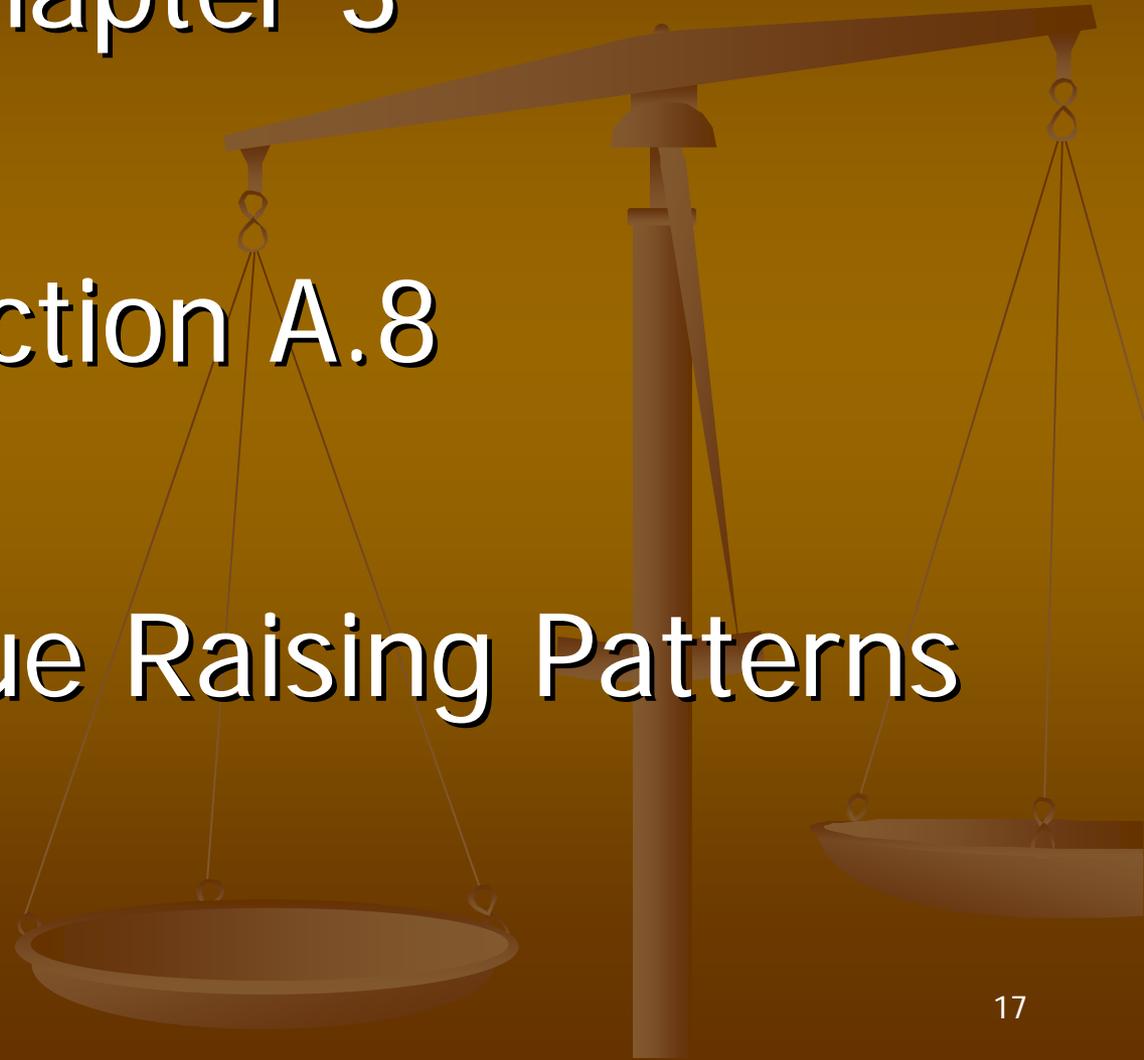


- Virtually all states authorize local governments to charge fees for some public safety services
- Most such fees are charged for fire and ambulance services
- All states similarly situated to Iowa authorize local governments to impose some form of fee on some public safety services.

# Chapter 3

## Section A.8

# Local Revenue Raising Patterns



Local Own-Source  
Revenue as  
Percent of State  
Personal Income

Total Local General  
Revenues as a  
Percent of State  
Personal Income

**United States**

7.1

11.5

**Arkansas**

4.2

9.3

**Idaho**

6.3

10.2

**Illinois**

7.3

10.9

**Iowa**

7.1

11.1

**Kansas**

7.0

10.9

**Kentucky**

4.8

8.4

**Minnesota**

5.6

10.9

**Missouri**

6.5

9.8

**Nebraska**

7.8

11.0

**North Carolina**

6.3

10.7

**North Dakota**

5.7

9.5

**South Dakota**

5.6

8.3

**Wisconsin**

6.3

11.5

Taxes as a Share of Own-Source Local Revenues, 2006

Charges as a Share of Own-Source Local Revenues, 2006

Miscellaneous General Revenues as a Share of Own-Source Local Revenues, 2006

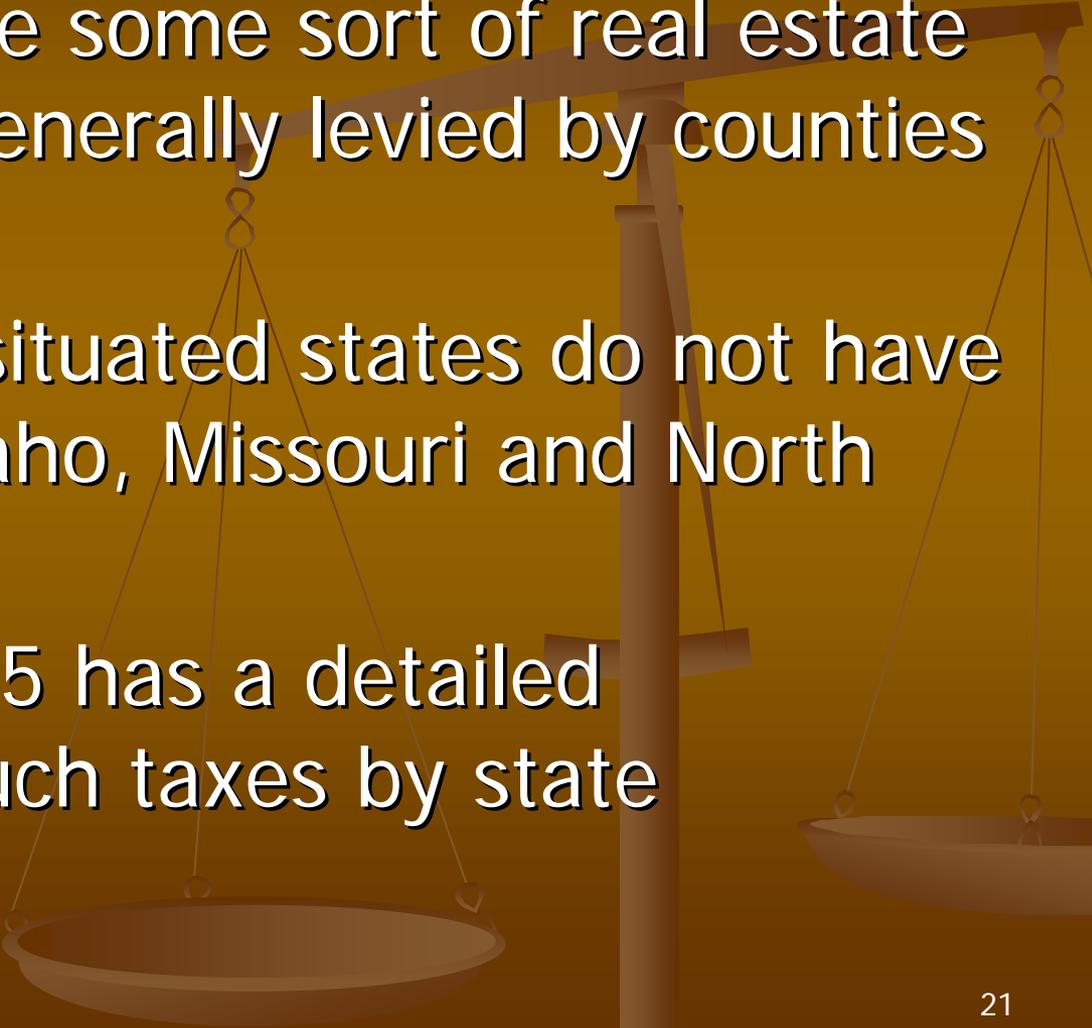


	Taxes as a Share of Own-Source Local Revenues, 2006	Charges as a Share of Own-Source Local Revenues, 2006	Miscellaneous General Revenues as a Share of Own-Source Local Revenues, 2006
<b>United States</b>	63.1	25.7	11.2
<b>Arkansas</b>	53.1	30.1	16.8
<b>Idaho</b>	49.4	43.5	7.0
<b>Illinois*</b>	67.4	23.2	9.4
<b>Iowa</b>	59.2	31.7	9.1
<b>Kansas</b>	62.2	24.9	12.9
<b>Kentucky</b>	61.3	23.0	15.7
<b>Minnesota*</b>	46.3	35.7	18.0
<b>Missouri*</b>	65.3	25.9	8.8
<b>Nebraska*</b>	61.6	24.0	14.4
<b>North Carolina</b>	52.3	38.1	9.6
<b>North Dakota</b>	62.7	19.8	17.6
<b>South Dakota*</b>	70.8	21.3	7.9
<b>Wisconsin*</b>	69.9	22.7	7.4

# Local Property Taxes

- Local governments in Iowa generate 82 percent of their tax revenues from the PT
- Local governments in 3 similarly situated states depend much less on property taxes for their tax revenues – Arkansas, Kentucky and Missouri
- Local governments in 9 similarly situated states are more dependent on property taxes than local governments in the nation and local governments in 4 are more dependent on property taxes than local governments in Iowa

# Real Estate Transfer Taxes



- Forty states have some sort of real estate transfer taxes generally levied by counties or cities
- Three similarly situated states do not have such taxes – Idaho, Missouri and North Dakota
- Appendix Table 5 has a detailed description of such taxes by state

# Local Sales Taxes

- Local governments in Iowa receive 11.4 percent of their tax revenues from the general sales tax
- For local governments in states similarly situated to Iowa the range is from 47.4 percent of taxes in Arkansas to zero percent in Idaho
- Seven similarly situated states have local governments less dependent on general sales taxes than local governments nationally.

# Administering a Local Sales Taxes

- Local sales tax can be a “piggy back” on the state sales tax where the local government adds a local rate to the state rate
- Local sales tax can also have the local government determine both the rate and base of the tax (e.g., Arizona)

# Local Selective Sales Taxes

- Selective sales taxes typically not too important for local government
- Local governments in Iowa get 3.3 percent of tax revenue from selective sales taxes
- Local governments in 8 of the similarly situated states receive less than the national average of 4.9 percent of taxes from selective sale taxes and all but one of these 8 states (Kansas) receive a smaller share of tax revenues from selective sales taxes than local governments in Iowa

# Selective Sales Taxes

- Alcoholic Beverages Tax – typically state tax
- Motor Fuels Tax – typically state tax
- Public Utilities Tax – both state and local
- Tobacco Products Tax – typically state tax
- Other Selective Sales Taxes including amusement taxes, hotel/motel taxes, meals tax, etc.) – both state and local

# Local Income Taxes

- Generally not an important tax for local governments nationally – only 12 states allow local governments access to a PI tax
- Local governments in Iowa generate 1.7 percent of their tax revenues from PI tax
- Local governments in Kentucky and Missouri generate 27.8 and 4.1 percent of tax revenues from PI tax

# Administering a Local Income Tax

- Local income tax can be a “piggy back” on state income tax with local governments determining a local rate, e.g., Maryland
- Local income tax can be a wage tax which can be collected from non-residents, e.g., Pennsylvania
- Local income tax can be split between jurisdiction of residence and work, e.g., Ohio

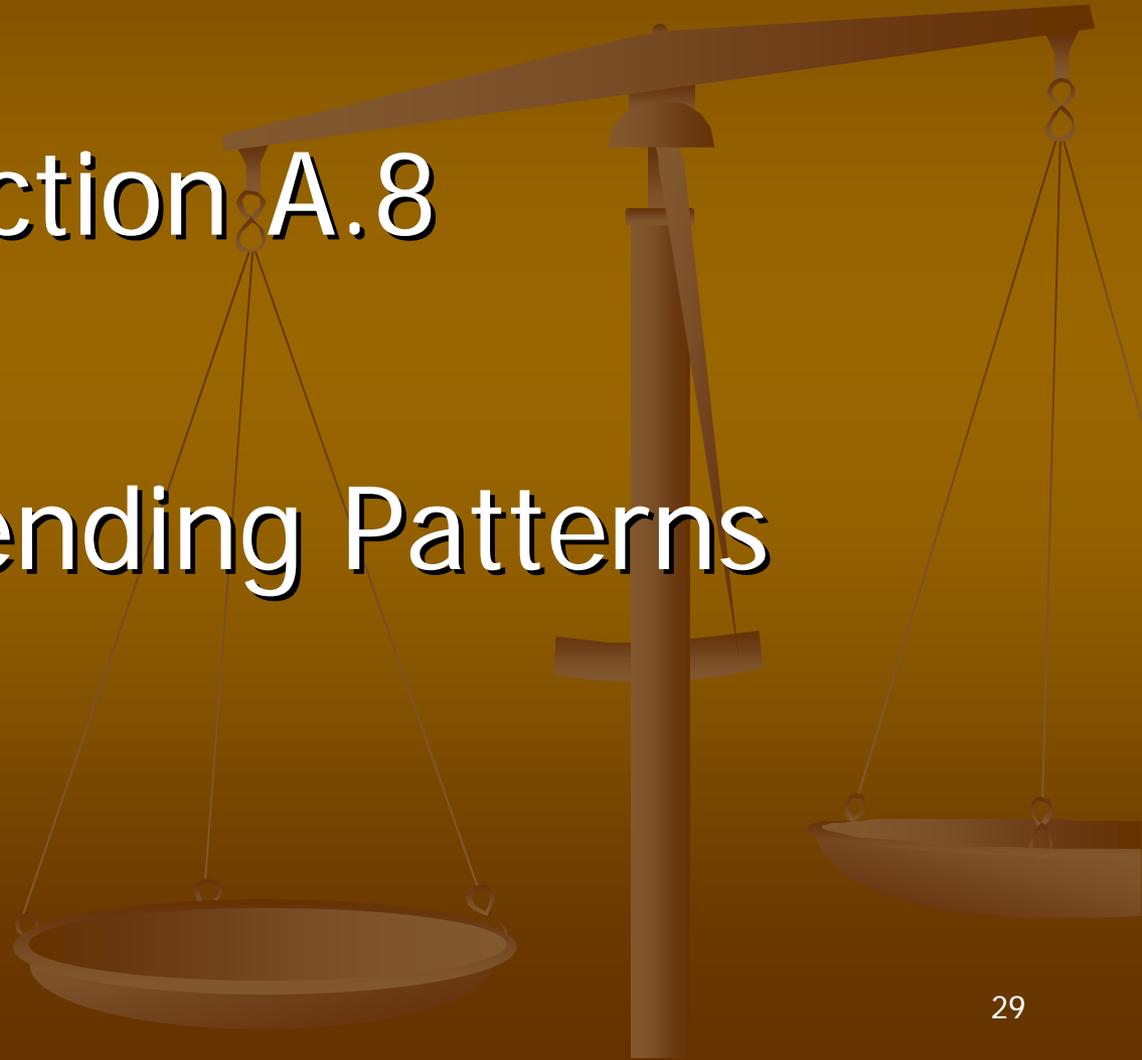
# Summary of Local Revenues for Iowa

- Local governments in Iowa are
  - Somewhat less reliant on local taxes (59.2 percent) than local governments nationally (63.1 percent) and less reliant on taxes than local governments in 8 of 12 similarly situated states
  - More dependent on charges (31.7 percent) than local governments nationally (25.7 percent) and 9 of 12 similarly situated states
  - More dependent on property taxes (82 percent) than local governments nationally (71.1 percent) and local governments in 8 of 12 similarly situated states

# Chapter 4

## Section A.8

# Local Spending Patterns



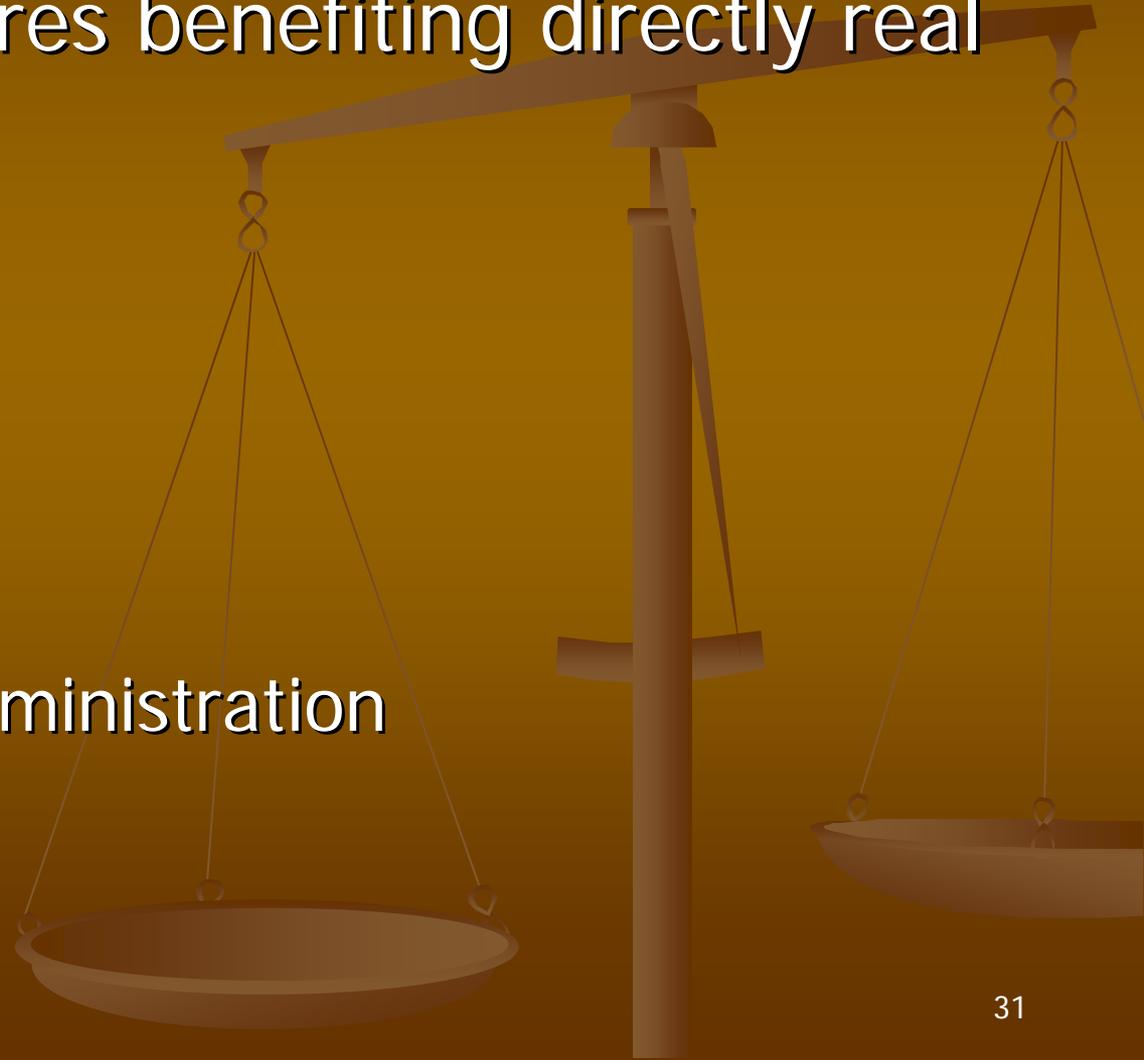
# Local Expenditure Patterns

- Local spending patterns across states
  - Education
  - Public welfare
  - Transportation
  - Public safety
  - Public safety General administration



# Local Spending Impacting Individual Properties

- Local expenditures benefiting directly real properties
  - Education
  - Health
  - Transportation
  - Public Safety
  - Sewerage
  - Government administration
  - Other



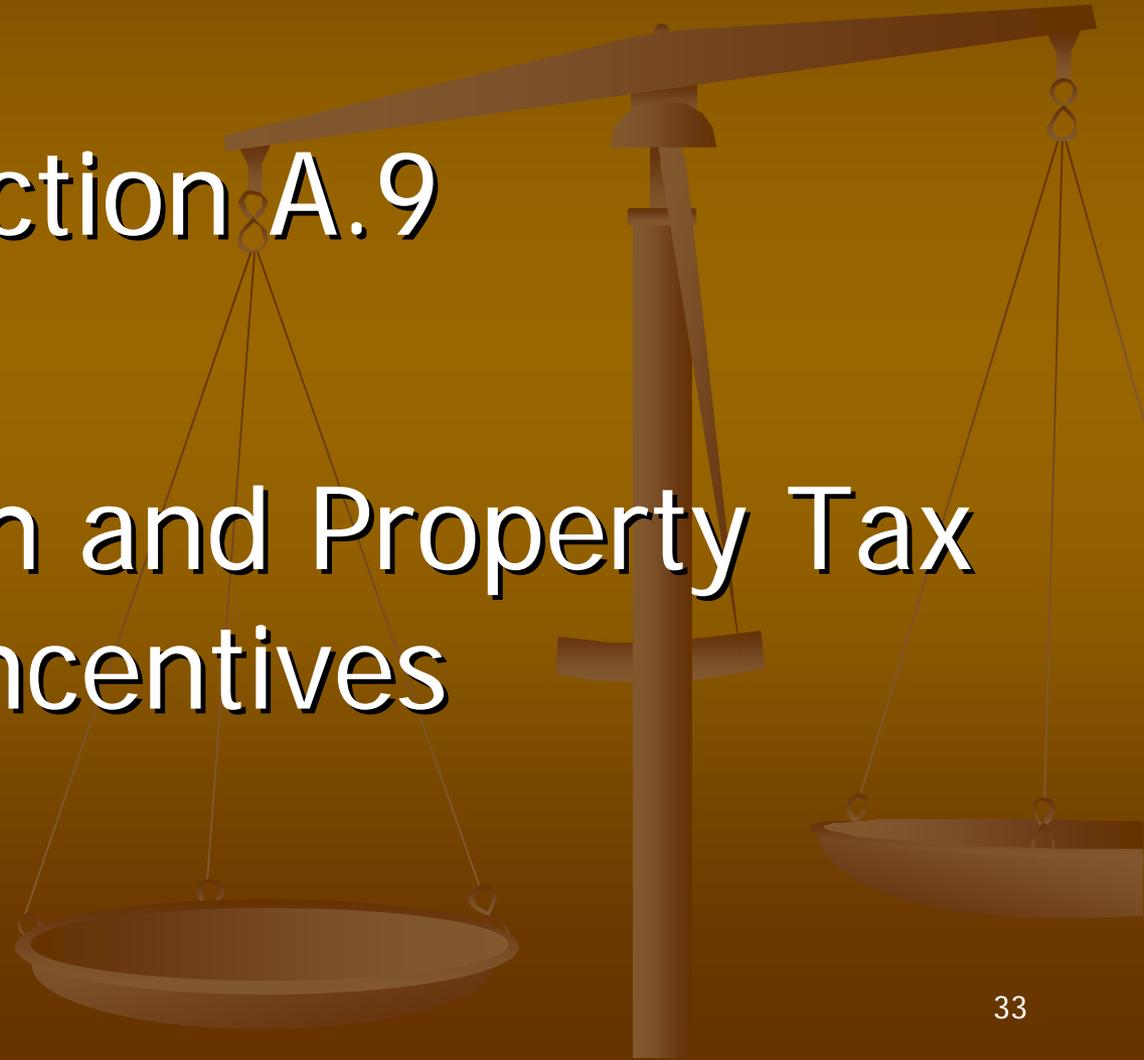
# Conclusions

- Variation across states in local revenue raising and spending responsibilities
- Variation in composition of revenues
- Variation in composition of expenditures
- Variations a result of historical, cultural, political differences across states

# Chapter 5

## Section A.9

# Smart Growth and Property Tax Incentives



# States' Approaches to Smart Growth: Common Elements

- Update Comprehensive plans, provide resources and incentive for compliance
- Commissions to study problems
- Primary program – MD Priority Funding Areas; TN & OR Urban Growth Boundaries
- Reimbursement for authorized property tax incentives
- Graduated or differential impact fees, except TN

# Leading states

- Updating comprehensive plans
  - Maryland – The Economic Growth, Resource Protection, and Planning policy (1992): withholds state funding, approves only projects in compliance, provides resources
  - Tennessee – The Growth Policy Law (1998): urban growth boundaries, withhold or increase funding, deadline, no resources
  - Wisconsin – Comprehensive Planning (1999): withhold right to regulate land use, deadline, provides resources

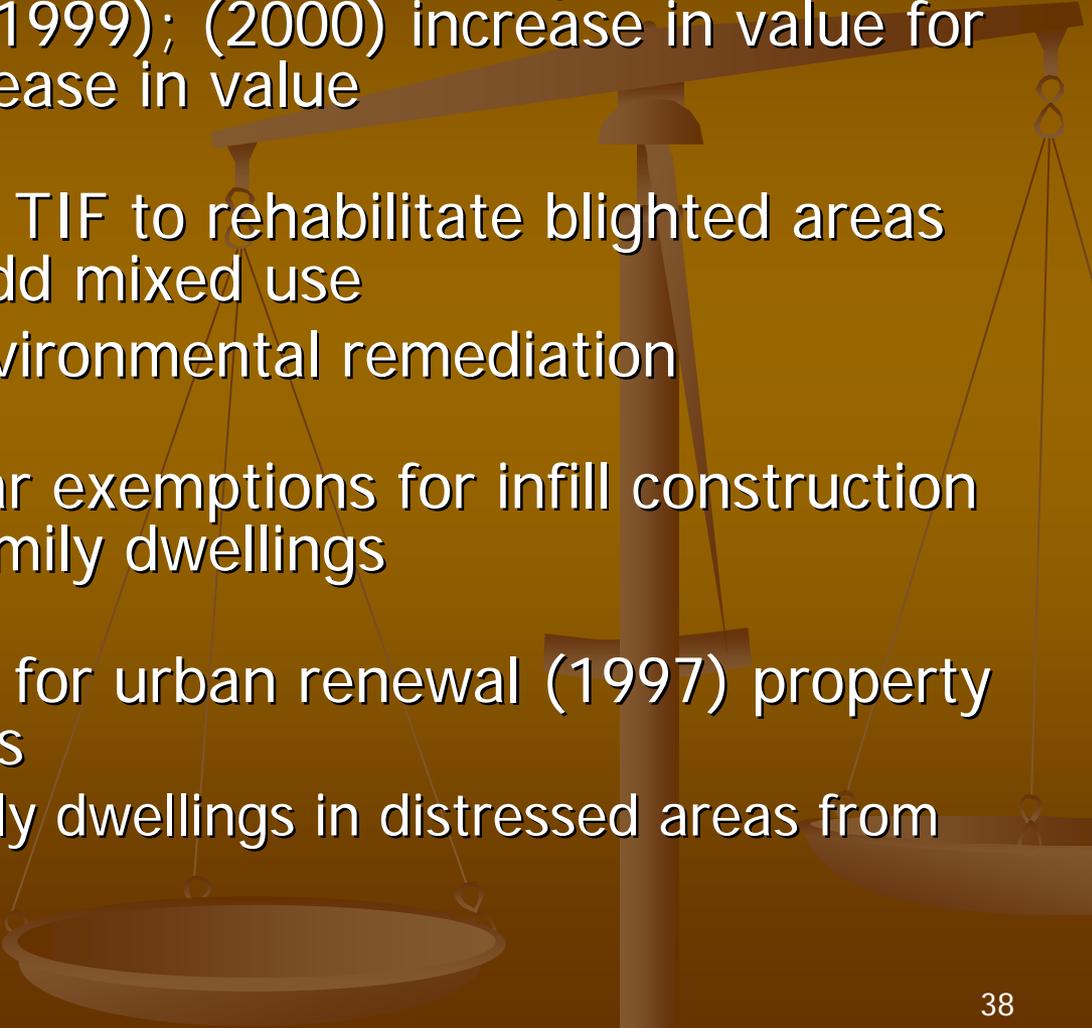
# Table 1 Condensed

State tax credit	State incentive	Authorize easement	Authorize tax credit	Authorize TIF
AZ	CA	CA	CT	CA
HI	DE	GA	IA	FL
IN	IA	IA	IL	IA
KS	MA	NH	MD	IL
ME	MD	NV	ME	ME
NY	NJ	RI	NJ	OH
OR	NY	TN	NY	OR
	TN	VT	OR	SC
	VT	WA	PA	TN
		WV	VT	WI

# Tax incentives for Affordable Housing

- Authorize abatements: Connecticut, New York, Vermont, and Oregon
  - CT provides reimbursement (40 yrs)
  - NY 100% 10 years, declining rate 5 yrs
- TIFs: California, Iowa, and Maine
  - CA Low and Moderate Income Housing Fund
  - IA: Requires assistance for low income
  - ME: Retain taxes from increased value

# Infill Development



- Maryland – Vacant or damaged buildings: (1957) 100% for one year; (1999); (2000) increase in value for 10 years; (2006) increase in value
- Wisconsin – (1975) TIF to rehabilitate blighted areas updated in 2003 to add mixed use
  - (1997) TIF for environmental remediation
- New Jersey – 5 year exemptions for infill construction of single and multi family dwellings
- Oregon – (1961) TIF for urban renewal (1997) property tax collection methods
  - Exempts single family dwellings in distressed areas from city property taxes

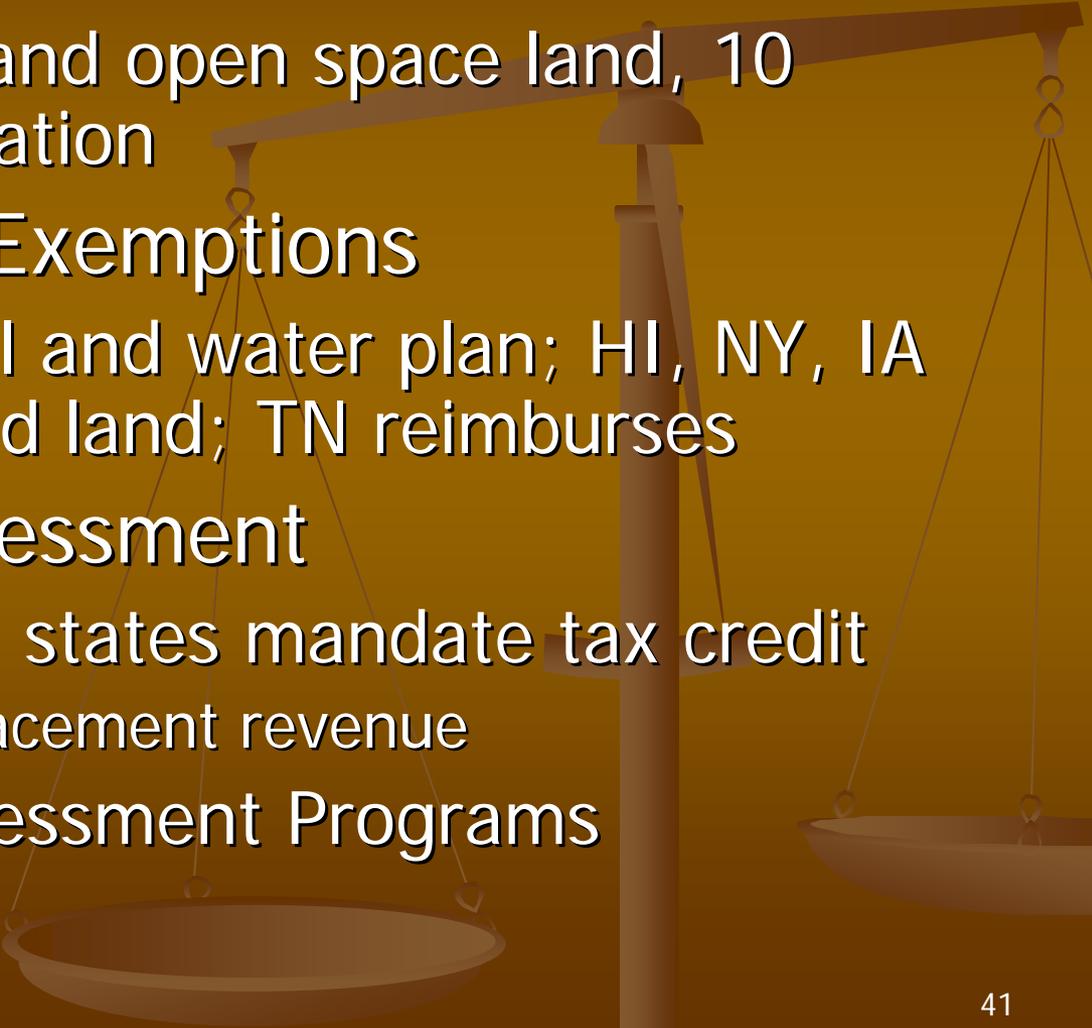
# Infill – Brownfields

- Maryland – (1997) 50% of tax for increase in assessment value
- Tennessee – (2001) TIF for brownfield projects
- Delaware – (2001) state matching funds for assessment and remediation
- Indiana – Tax abatement 100%, 66%, 33%

# Effectiveness of Property Tax Incentives

- Influence location decisions of individual firms and households
- Additive effect
- Competitive adoption theory
- Targeted property tax incentives
- Property tax abatements do not alter location decisions of new firms attracted to fringe development (Reese and Sands 2006)

# Open Space



- Tax Freeze
  - VT agricultural and open space land, 10 years, compensation
- Full/partial Tax Exemptions
  - MD 1995 for soil and water plan; HI, NY, IA exempts devoted land; TN reimburses
- Current Use Assessment
  - Easements – 18 states mandate tax credit
    - CA and NJ replacement revenue
  - Preferential Assessment Programs

# Open Space: Conservation Easements

- Authorize conservation easements
  - CA, GA, ME, NH, NJ, RI,
  - TN – (1976-1986) threat of sprawl, authorize conservation easements, and limit acreage
- Mandate tax credit for easement
  - MD (1986) 100 percent for 15 years; (1991) Land Trust
  - TN (1981) reduction in true cash value
- Replacement Revenue
  - CA \$5 per agricultural acre, \$1 per open space acre for 10 years
  - TN (2005) State compensation

# Effectiveness of Easements

- Do property tax incentives result in more easements?
  - 1.9 million acres in 1990 and 9 million in 2006
  - Evidence of abuse
- Effect on property tax revenue?
  - Unpredictable, assessments range
- Selective tax relief

# Open Space: Preferential Assessments

- Penalty: Difference + previous years or additional percentage
  - CA, AK, AL, IA, NH, NV, VT, and WA
- Ineffective when negligible compared to profit, as on land with high development pressure (Youngman 2005)
  - More effective in rural areas than urban fringe (Boldt 2003)

# Conclusions

- Statutes intentionally and unintentionally support smart growth efforts
- State led initiatives, withhold state funding, provide financial support (except for TN)
- The only commonly *mandated* property tax abatement: conservation easements
- Little state effort to evaluate
- Property tax incentives are least effective on urban fringe